

**BILL #** SCR 1043

**TITLE:** property tax exemption; military

**SPONSOR:** Verschoor

**STATUS:** As Introduced

**REQUESTED BY:** Senate

**PREPARED BY:** Brian Schmitz

## **FISCAL ANALYSIS**

### **Description**

Conditional upon voter approval in the next general election, this bill would provide a property tax exemption for military veterans who began military service as residents of Arizona and served in the armed forces for at least two years. The property must be the principal residence of the veteran, and it cannot be more than one acre in size.

### **Estimated Impact**

JLBC Staff cannot determine the cost of SCR 1043 with certainty due to a lack of historical data on military veterans who began service as residents of Arizona. Along with the Arizona Department of Veterans' Services, we have developed a method of estimating the number of these veterans using several simplifying assumptions. Under this methodology, SCR 1043 could have a General Fund cost of as much as \$57 million in FY 2007, the first year the exemption would affect the state budget. This estimate, however, is very uncertain.

The fiscal impact of SCR 1043 may potentially be mitigated by the state's Truth in Taxation (TNT) provisions for K-12 funding. Under TNT, the tax rates used to determine the state's share of K-12 funding are potentially adjusted each year to account for the growth in the valuation of existing property. The purpose of such rate adjustments is to prevent tax levies from automatically increasing whenever properties appreciate. By reducing growth in property tax collections, the bill would reduce the future cost of the TNT provisions.

### **Analysis**

In order to determine this bill's fiscal impact, it is necessary to know the number of individuals who would qualify for this tax exemption and their property values. Using data provided by the U.S. Department of Defense and a methodology developed by the Arizona Department of Veterans' Services, it is possible to estimate the number of qualifying individuals. In 2001 (the most recent year for which data exists), there were 3,745 individuals who entered the armed services from Arizona. If we assume that an average of 3,745 people enter the military from Arizona each year, that the typical age for joining the military is 18, and that the average lifespan for a veteran is 70 years, then the number of Arizonans who joined the military and who are still alive is 3,745 times 52 years. Thus, we estimate that there are up to 194,740 veterans who would qualify for this tax exemption. This figure represents 35% of the 564,000 veterans currently living in the state.

There are a few caveats associated with the estimate of up to 194,740 qualifying veterans. First, the number of Arizonans joining the military has probably fluctuated over the past 52 years, as the nation has fought wars in some years and enjoyed peace in other years. Plus, Arizona's population has grown significantly over this period. So, extrapolating the number of new military personnel in 2001 over a 52-year period is bound to produce a rough estimate. Second, we do not know how many of Arizona's veterans currently live in Arizona. For this reason, we acknowledge that the 194,740 figure could represent the maximum number of taxpayers who would qualify for this exemption. The actual number of qualifying taxpayers could be less than 194,740.

We do not have data on the property values of veterans. We checked with the Maricopa County Assessors Office and they do not track property values according to a homeowner's military status. However, we assume that the average property value of a veteran is the same as the statewide average of \$130,000.

If 194,740 individuals qualify for this tax exemption and their average home price is \$130,000, then at an assessment rate of 10%, statewide net assessed value (NAV) could be reduced by this bill by an amount of up to \$(2.5) billion.

Under the Basic State Aid formula, any legislation that reduces the local property tax base also increases the state share of total K-12 funding. Based on projected growth rates for assessed valuations in FY 2005 and FY 2006, we estimate that a NAV loss of \$(2.5) billion in FY 2007 would translate into a Basic State Aid cost increase of \$97 million. However, the same NAV reduction will also decrease the cost for the Homeowner's Rebate by an estimated \$(40) million. Thus, the net estimated impact on the General Fund could be \$57 million. As noted earlier, however, this estimate is uncertain due to the lack of historical data.

As noted earlier, the net impact to the General Fund would be mitigated if the Legislature adopts the TNT rates computed for FY 2007. The net effect of such rate adjustments has not been determined.

#### **Local Government Impact**

This bill would shift the tax burden to other property owners and possibly result in property tax losses for local governments.

3/5/04